

# GDP and the Economy

## Preliminary Estimates for the Third Quarter of 2007

**R**EAL gross domestic product (GDP) increased 4.9 percent in the third quarter, according to “preliminary” estimates of the national income and product accounts (NIPAs); it increased 3.8 percent in the second quarter (chart 1 and table 1).<sup>1</sup> The third-quarter growth rate was revised up 1.0 percentage point from the “advance” estimate (page 9).<sup>2</sup>

The acceleration in real GDP growth in the third quarter primarily reflected accelerations in exports, consumer spending, and inventory investment. In contrast, imports (which are subtracted in the calculation of GDP) turned up, residential fixed investment decreased by more than the second-quarter decrease, and nonresidential structures slowed.<sup>3</sup>

- Prices of goods and services purchased by U.S. residents increased 1.6 percent in the third quarter, following an increase of 3.8 percent in the second quarter (page 8). Energy prices turned down in the third quarter, and food prices increased at the same rate as in the second quarter. Excluding food and energy, prices increased 1.7 percent, following an increase of 1.5 percent in the second quarter.
- Real disposable personal income (DPI)—income adjusted for inflation and taxes—increased 4.4 percent in the third quarter after decreasing 0.8 percent (revised). The upturn reflected an acceleration in current-dollar DPI and a deceleration in inflation.
- The personal saving rate was 0.6 percent in the third quarter; in the second quarter, it was 0.3 percent (revised).
- Corporate profits decreased \$19.3 billion in the third quarter, following an increase of \$94.7 billion in the second quarter (page 10).

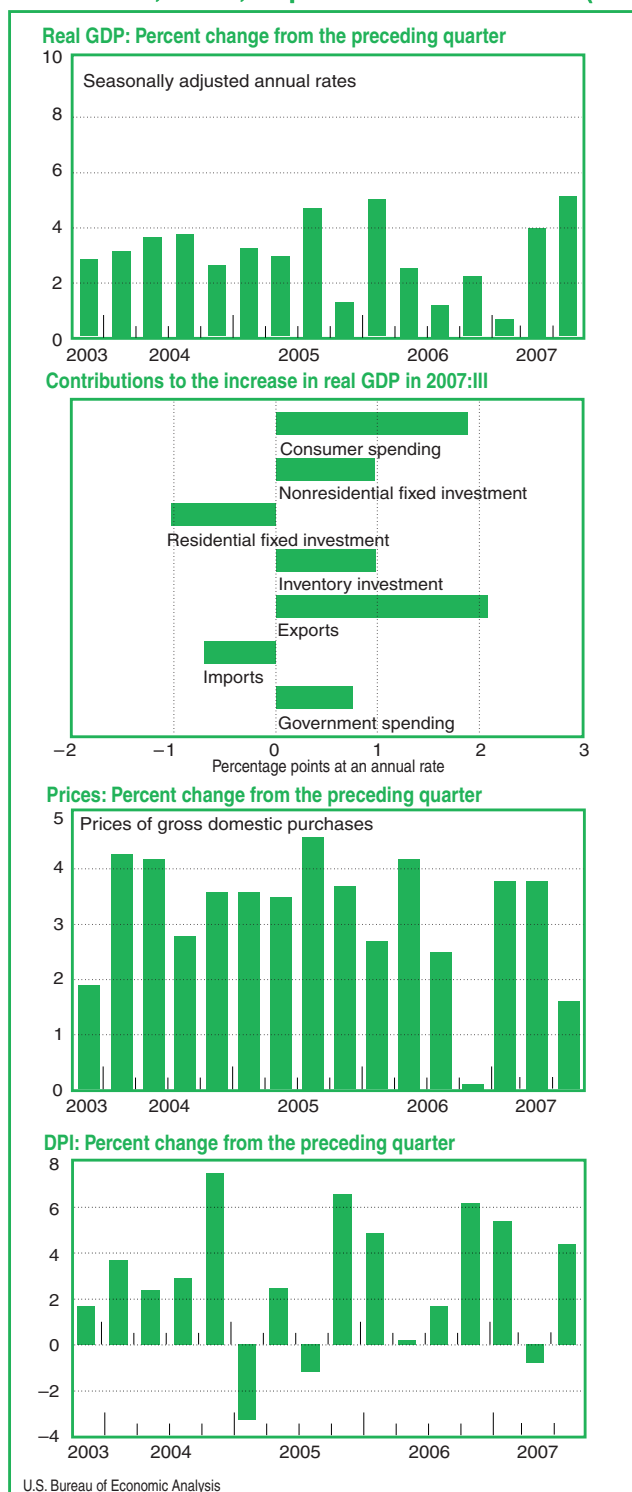
1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More information can be found at <[www.bea.gov/bea/about/infoqual.htm](http://www.bea.gov/bea/about/infoqual.htm)> and <[www.bea.gov/bea/faq/national/gdp\\_accuracy.htm](http://www.bea.gov/bea/faq/national/gdp_accuracy.htm)>. Quarterly estimates are expressed at seasonally adjusted annual rates, which assume that a rate of activity for a quarter is maintained for a year.

3. In this article, “consumer spending” refers to the NIPA series “personal consumption expenditures,” “inventory investment” refers to “change in private inventories,” and “government spending” refers to “government consumption expenditures and gross investment.”

*Christopher Swann prepared this article.*

**Chart 1. GDP, Prices, Disposable Personal Income (DPI)**



## Real GDP Overview

Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)					Contribution to percent change in real GDP (percentage points)			
		2006		2007			2006		2007	
		III	IV	I	II	III	IV	I	II	III
<b>Gross domestic product<sup>1</sup> .....</b>	<b>100.0</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>	
<b>Personal consumption expenditures .....</b>	<b>70.0</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>2.7</b>	<b>2.68</b>	<b>2.56</b>	<b>1.00</b>	<b>1.88</b>	
Durable goods .....	7.7	3.9	8.8	1.7	4.0	0.30	0.67	0.14	0.31	
Nondurable goods .....	20.4	4.3	3.0	-0.5	1.9	0.86	0.61	-0.10	0.39	
Services .....	41.9	3.7	3.1	2.3	2.8	1.52	1.28	0.96	1.18	
<b>Gross private domestic investment .....</b>	<b>15.5</b>	<b>-14.1</b>	<b>-8.2</b>	<b>4.6</b>	<b>5.9</b>	<b>-2.50</b>	<b>-1.36</b>	<b>0.71</b>	<b>0.92</b>	
Fixed investment .....	15.2	-7.1	-4.4	3.2	-0.4	-1.19	-0.70	0.49	-0.06	
Nonresidential .....	10.7	-1.4	2.1	11.0	9.4	-0.15	0.22	1.12	0.97	
Structures .....	3.4	7.4	6.4	26.2	14.3	0.23	0.20	0.78	0.46	
Equipment and software .....	7.3	-4.9	0.3	4.7	7.2	-0.38	0.02	0.34	0.51	
Residential .....	4.5	-17.2	-16.3	-11.8	-19.7	-1.04	-0.93	-0.62	-1.03	
Change in private inventories .....	0.3	.....	.....	.....	.....	-1.31	-0.65	0.22	0.98	
<b>Net exports of goods and services .....</b>	<b>-5.0</b>	.....	.....	.....	.....	<b>1.25</b>	<b>-0.51</b>	<b>1.32</b>	<b>1.37</b>	
Exports .....	12.1	14.3	1.1	7.5	18.9	1.51	0.13	0.85	2.08	
Goods .....	8.5	9.6	0.9	6.6	25.8	0.73	0.07	0.53	1.94	
Services .....	3.5	26.0	1.6	9.6	4.0	0.78	0.05	0.33	0.14	
Imports .....	17.0	1.6	3.9	-2.7	4.3	-0.26	-0.63	0.47	-0.70	
Goods .....	14.4	-0.6	4.2	-2.9	4.9	0.09	-0.57	0.42	-0.68	
Services .....	2.7	14.2	2.3	-1.7	0.9	-0.35	-0.06	0.05	-0.02	
<b>Government consumption expenditures and gross investment .....</b>	<b>19.4</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>3.9</b>	<b>0.66</b>	<b>-0.09</b>	<b>0.79</b>	<b>0.75</b>	
Federal .....	7.1	7.3	-6.3	6.0	7.0	0.50	-0.46	0.41	0.49	
National defense .....	4.8	16.9	-10.8	8.5	10.1	0.74	-0.54	0.39	0.47	
Nondefense .....	2.3	-10.0	3.8	0.9	0.9	-0.24	0.08	0.02	0.02	
State and local .....	12.4	1.3	3.0	3.0	2.1	0.16	0.36	0.37	0.26	

1. The estimates of GDP under the contribution columns are also percent changes.

NOTE. Percent changes are from NIPA table 1.1.1, contributions are from NIPA table 1.1.2, and shares are from NIPA table 1.1.10.

Table 2. Real Gross Domestic Product (GDP) by Type of Product

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)					Contribution to percent change in real GDP (percentage points)			
		2006		2007			2006		2007	
		III	IV	I	II	III	IV	I	II	III
<b>Gross domestic product<sup>1</sup> .....</b>	<b>100.0</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>	
Final sales of domestic product .....	99.7	3.5	1.3	3.6	3.9	3.40	1.25	3.60	3.95	
Change in private inventories .....	0.3	.....	.....	.....	.....	-1.31	-0.65	0.22	0.98	
Goods .....	31.1	1.1	0.2	5.4	11.7	0.36	0.06	1.65	3.51	
Services .....	58.8	4.4	2.1	3.1	3.1	2.50	1.21	1.85	1.86	
Structures .....	10.1	-7.0	-6.2	3.0	-4.3	-0.77	-0.68	0.32	-0.45	
<b>Addenda:</b>										
Motor vehicle output .....	3.0	-21.6	6.2	1.0	15.4	-0.74	0.18	0.03	0.43	
GDP excluding motor vehicle output .....	97.0	2.9	0.4	3.9	4.6	2.84	0.42	3.79	4.49	
Final sales of computers .....	0.7	27.0	-1.3	35.7	47.8	0.16	-0.01	0.21	0.27	
GDP excluding final sales of computers .....	99.3	1.9	0.6	3.6	4.7	1.93	0.61	3.61	4.65	

1. The estimates of GDP under the contribution columns are also percent changes.

NOTE. Percent changes are from NIPA table 1.2.1, contributions are from NIPA table 1.2.2, and shares are calculated from NIPA table 1.2.5.

Consumer spending accelerated, increasing 2.7 percent in the third quarter after increasing 1.4 percent. It added 1.88 percentage points to real GDP growth in the third quarter. Spending for nondurable goods turned up, and spending for both services and durable goods accelerated.

Nonresidential fixed investment slowed somewhat, increasing 9.4 percent in the third quarter after increasing 11.0 percent. The deceleration was primarily due to a pullback in structures.

Residential fixed investment fell for the seventh straight quarter, decreasing 19.7 percent and subtracting 1.03 percentage points from real GDP growth.

Inventory investment picked up substantially, adding 0.98 percentage point to real GDP growth after adding 0.22 percentage point.

Exports rose sharply, increasing 18.9 percent after increasing 7.5 percent. The third-quarter increase was the largest since the fourth quarter of 2003 and contributed 2.08 percentage points to real GDP growth. Goods exports picked up markedly; services exports slowed.

Imports turned up, increasing 4.3 percent after decreasing 2.7 percent. The turnabout, which was mainly due to an upturn in goods imports, subtracted 0.70 percentage point from real GDP growth.

Federal Government spending accelerated somewhat, reflecting an acceleration in national defense expenditures.

State and local government spending slowed in the third quarter

Real final sales of domestic product, real GDP less inventory investment, increased 3.9 percent after increasing 3.6 percent in the second quarter.

Motor vehicle output accelerated sharply, increasing 15.4 percent after a 1.0-percent increase in the second quarter.

Final sales of computers stepped up, increasing 47.8 percent after increasing 35.7 percent.

## Consumer Spending

**Table 3. Real Personal Consumption Expenditures (PCE)**

[Seasonally adjusted at annual rates]

	Share of current-dollar PCE (percent)	Change from preceding period (percent)					Contribution to percent change in real PCE (percentage points)			
		2007	2006	2007			2006	2007		
				III	IV	I		II	III	IV
PCE <sup>1</sup> .....	100.0	3.9	3.7	1.4	2.7	3.9	3.7	1.4	2.7	
Durable goods .....	11.1	3.9	8.8	1.7	4.0	0.44	0.97	0.19	0.44	
Motor vehicles and parts .....	4.5	0.1	11.3	-2.9	-5.0	0.01	0.51	-0.14	-0.23	
Furniture and household equipment .....	4.3	8.5	9.5	4.2	9.8	0.36	0.40	0.18	0.40	
Other <sup>2</sup> .....	2.3	3.0	2.7	6.8	12.3	0.07	0.06	0.15	0.27	
Nondurable goods .....	29.1	4.3	3.0	-0.5	1.9	1.26	0.88	-0.14	0.55	
Food .....	13.7	7.3	1.7	-1.4	1.1	0.98	0.23	-0.19	0.15	
Clothing and shoes .....	3.8	3.8	8.4	2.4	6.3	0.15	0.32	0.09	0.23	
Gasoline, fuel oil, and other energy goods .....	3.7	-5.6	2.4	-4.5	-0.9	-0.21	0.08	-0.17	-0.04	
Other <sup>3</sup> .....	7.8	4.3	3.1	1.7	2.6	0.34	0.25	0.13	0.20	
Services .....	59.9	3.7	3.1	2.3	2.8	2.21	1.86	1.35	1.66	
Housing .....	15.1	2.0	2.5	2.7	2.5	0.30	0.37	0.41	0.38	
Household operation .....	5.4	3.6	1.0	1.4	4.9	0.20	0.05	0.08	0.27	
Electricity and gas .....	2.3	4.2	1.6	1.2	11.0	0.09	0.04	0.03	0.24	
Other household operation .....	3.1	3.2	0.5	1.5	0.7	0.10	0.01	0.05	0.02	
Transportation .....	3.7	4.2	2.6	4.4	3.2	0.16	0.10	0.16	0.12	
Medical care .....	17.3	2.8	3.9	2.3	2.3	0.49	0.68	0.40	0.40	
Recreation .....	4.1	10.8	2.1	0.9	3.8	0.43	0.09	0.04	0.16	
Other <sup>4</sup> .....	14.2	4.5	4.0	1.9	2.4	0.63	0.57	0.27	0.34	

1. The estimates under the contribution columns are also percent changes.

2. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

3. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

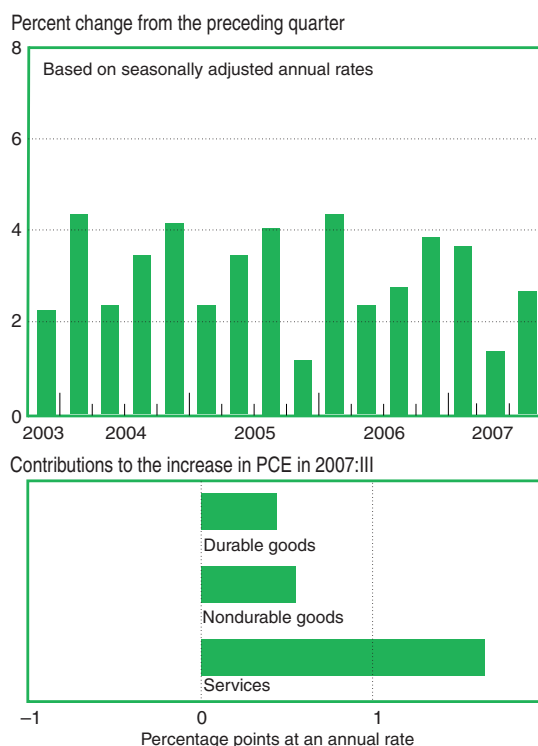
4. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE: Percent changes are from NIPA table 2.3.1, and contributions, from NIPA table 2.3.2; shares are calculated from NIPA table 2.3.5.

Spending for durable goods picked up in the third quarter and contributed 0.44 percentage point to the 2.7-percent growth in real consumer spending. The pickup reflected accelerations in furniture and household equipment and in "other" durable goods. In contrast, motor vehicles and parts decreased more than in the second quarter.

Spending for nondurable goods turned up in the third quarter, increasing 1.9 percent after a 0.5-percent decrease. It contributed 0.55 percentage point to the growth in real consumer spending. The turnabout was led by an upturn in spending for food. Spending for clothing and shoes picked up, and spending for gasoline, fuel oil, and other energy goods decreased less than in the second quarter. Spending for "other" nondurable goods also accelerated.

Spending for services increased 2.8 percent after increasing 2.3 percent. It contributed 1.66 percentage points to the growth in real consumer spending. The step-up primarily reflected accelerations in spending for electricity and gas and for recreation.

**Chart 2. Real Personal Consumption Expenditures**


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## Private Fixed Investment

**Table 4. Real Private Fixed Investment (PFI)**

[Seasonally adjusted at annual rates]

	Share of current-dollar PFI (percent)	Change from preceding period (percent)					Contribution to percent change in real PFI (percentage points)			
		2006		2007			2006		2007	
		III	IV	I	II	III	IV	I	II	III
<b>Private fixed investment<sup>1</sup> ....</b>	<b>100.0</b>	<b>-7.1</b>	<b>-4.4</b>	<b>3.2</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-7.1</b>	<b>-4.4</b>	<b>3.2</b>	<b>-0.4</b>
<b>Nonresidential .....</b>	<b>70.5</b>	<b>-1.4</b>	<b>2.1</b>	<b>11.0</b>	<b>9.4</b>	<b>-0.90</b>	<b>1.42</b>	<b>7.16</b>	<b>6.26</b>	
<b>Structures .....</b>	<b>22.6</b>	<b>7.4</b>	<b>6.4</b>	<b>26.2</b>	<b>14.3</b>	<b>1.40</b>	<b>1.28</b>	<b>4.97</b>	<b>2.97</b>	
Commercial and health care .....	8.3	3.7	14.7	2.5	3.8	0.27	1.09	0.21	0.31	
Manufacturing .....	1.3	-19.3	-2.2	19.0	-7.5	-0.27	-0.03	0.23	-0.11	
Power and communication .....	2.8	9.6	11.6	52.1	15.3	0.21	0.26	1.07	0.39	
Mining exploration, shafts, and wells .....	5.7	13.4	-3.6	48.6	25.5	0.63	-0.19	2.13	1.28	
Other structures <sup>2</sup> .....	4.4	17.9	4.0	40.7	29.9	0.57	0.14	1.34	1.10	
<b>Equipment and software .....</b>	<b>47.9</b>	<b>-4.9</b>	<b>0.3</b>	<b>4.7</b>	<b>7.2</b>	<b>-2.30</b>	<b>0.15</b>	<b>2.19</b>	<b>3.29</b>	
Information processing equipment and software .....	24.2	-1.6	16.7	10.1	8.5	-0.36	3.54	2.30	1.97	
Computers and peripheral equipment .....	4.5	4.2	43.0	12.3	12.1	0.17	1.56	0.53	0.51	
Software <sup>3</sup> .....	10.4	2.4	9.3	10.8	9.4	0.22	0.86	1.03	0.92	
Other <sup>4</sup> .....	9.3	-8.3	13.5	8.4	5.9	-0.75	1.11	0.73	0.53	
Industrial equipment .....	8.5	-6.5	-2.9	16.3	8.2	-0.52	-0.23	1.22	0.66	
Transportation equipment .....	7.2	-13.3	-15.2	-23.8	2.6	-1.11	-1.27	-2.03	0.19	
Other equipment <sup>5</sup> .....	8.0	-3.9	-21.3	9.3	6.3	-0.31	-1.88	0.69	0.48	
<b>Residential .....</b>	<b>29.5</b>	<b>-17.2</b>	<b>-16.3</b>	<b>-11.8</b>	<b>-19.7</b>	<b>-6.20</b>	<b>-5.79</b>	<b>-4.01</b>	<b>-6.66</b>	
<b>Structures .....</b>	<b>29.1</b>	<b>-17.3</b>	<b>-16.6</b>	<b>-11.9</b>	<b>-20.0</b>	<b>-6.17</b>	<b>-5.80</b>	<b>-3.98</b>	<b>-6.67</b>	
Permanent site .....	16.3	-29.4	-27.7	-14.4	-21.8	-6.84	-6.05	-2.77	-4.13	
Single family .....	14.0	-34.0	-29.8	-14.2	-23.3	-7.15	-5.71	-2.35	-3.83	
Multifamily .....	2.3	13.3	-12.6	-15.8	-12.3	0.32	-0.34	-0.42	-0.30	
Other structures <sup>6</sup> .....	12.8	5.1	1.8	-8.5	-17.6	0.67	0.25	-1.21	-2.53	
<b>Equipment .....</b>	<b>0.5</b>	<b>-6.5</b>	<b>3.7</b>	<b>-6.0</b>	<b>2.3</b>	<b>-0.03</b>	<b>0.02</b>	<b>-0.03</b>	<b>0.01</b>	

1. The estimates of fixed investment under the contribution columns are also percent changes

2. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.

3. Excludes software "embedded," or bundled, in computers and other equipment.

4. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

5. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.

6. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.

NOTE: Percent changes are from NIPA table 5.3.1, contributions are from NIPA table 5.3.2, and shares are calculated from NIPA table 5.3.5.

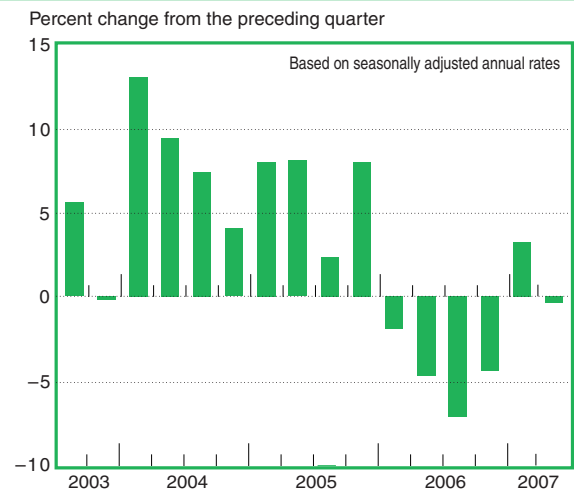
Nonresidential fixed investment slowed in the third quarter, mainly reflecting a deceleration in business investment in structures.

Investment in structures decelerated, mainly reflecting slowdowns in mining exploration, shafts, and wells and in power and communications structures. The deceleration was also attributable to a downturn in manufacturing structures and a deceleration in "other" structures.

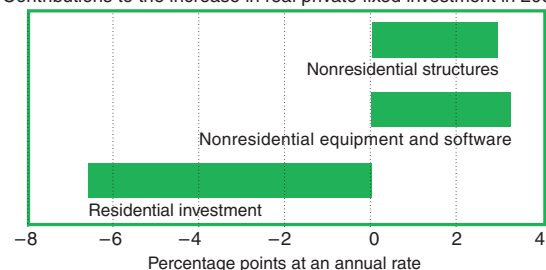
Investment in equipment and software accelerated, mainly reflecting an upturn in transportation equipment.

The decrease in residential investment was larger than the second-quarter decrease. The third-quarter decrease was the seventh in a row. The main contributors were larger decreases in single-family structures and in "other" residential structures (mainly brokers' commissions).

**Chart 3. Real Private Fixed Investment**



Contributions to the increase in real private fixed investment in 2007:III



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## Inventory Investment

**Table 5. Real Change in Private Inventories by Industry**

[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter				
	2006		2007		2006		2007		
	III	IV	I	II	III	IV	I	II	III
<b>Change in private inventories<sup>1</sup></b>	<b>53.9</b>	<b>17.4</b>	<b>0.1</b>	<b>5.8</b>	<b>32.9</b>	<b>-36.5</b>	<b>-17.3</b>	<b>5.7</b>	<b>27.1</b>
Farm .....	-2.9	3.8	5.0	3.6	3.0	6.7	1.2	-1.4	-0.6
Mining, utilities, and construction .....	4.9	5.4	4.3	1.9	-2.0	0.5	-1.1	-2.4	-3.9
Manufacturing .....	8.9	-1.8	-5.0	-4.2	3.1	-10.7	-3.2	0.8	7.3
Durable-goods industries .....	11.7	9.7	0.8	-7.5	1.8	-2.0	-8.9	-8.3	9.3
Nondurable-goods industries .....	-2.0	-10.3	-5.3	2.7	1.3	-8.3	5.0	8.0	-1.4
Wholesale trade .....	36.1	6.5	4.4	-0.2	15.3	-29.6	-2.1	-4.6	15.5
Durable-goods industries .....	32.0	5.4	8.7	-13.3	1.4	-26.6	3.3	-22.0	14.7
Nondurable-goods industries .....	5.5	1.3	-3.4	10.9	12.5	-4.2	-4.7	14.3	1.6
Retail trade .....	1.1	0.1	-13.5	3.3	14.5	-1.0	-13.6	16.8	11.2
Motor vehicle and parts dealers .....	-8.7	-11.2	-15.4	-5.2	13.3	-2.5	-4.2	10.2	18.5
Food and beverage stores .....	0.1	-0.3	-0.1	0.7	1.8	-0.4	0.2	0.8	1.1
General merchandise stores .....	5.7	5.0	2.3	2.5	-1.7	-0.7	-2.7	0.2	-4.2
Other retail stores .....	3.3	5.5	-1.5	4.6	2.0	2.2	-7.0	6.1	-2.6
Other industries .....	5.0	2.0	2.3	0.6	0.3	-3.0	0.3	-1.7	-0.3
Residual <sup>2</sup> .....	-0.7	1.1	2.4	4.3	-0.8	1.8	1.3	1.9	-5.1
<b>Addenda: Ratios of private inventories to final sales of domestic business:<sup>3</sup></b>									
Private inventories to final sales .....	2.45	2.43	2.43	2.41	2.39	.....	.....	.....	.....
Nonfarm inventories to final sales .....	2.26	2.24	2.24	2.21	2.20	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures .....	3.62	3.61	3.61	3.57	3.55	.....	.....	.....	.....

1. The levels are from NIPA table 5.6.6B.

2. The residual is the difference between the first line and the sum of the most detailed lines. It reflects that chained-dollar estimates are usually not additive, because they are based on quantity indexes that use weights of more than one period.

3. The ratios are from NIPA table 5.7.6B.

### Inventory Investment

The real change in private inventories, often called real private inventory investment, represents the change in the physical stock of goods held by businesses. It includes finished goods, goods at various stages of production, and raw materials.

The change in private inventories is a key component of gross domestic product (GDP), which aims to measure output derived from current production. To include the value of currently produced goods that are not yet sold and to exclude the value of goods produced in previous periods, change in private inventories must be included in the GDP calculation.

Thus, GDP can also be seen as the sum of final sales of domestic product and the change in private inventories (table 2).

For most industries, the estimates of change in private inventories are prepared by revaluing book-value estimates of inventories from the Census Bureau to a replacement-cost basis and calculating the change over a quarter or year. BEA does not always have complete data for every industry.

Real inventory investment increased \$27.1 billion in the third quarter after increasing \$5.7 billion in the second quarter. It added 0.98 percentage point to real GDP growth in the third quarter. The step-up mainly reflected an upturn in wholesale trade industries and an acceleration in manufacturing industries.

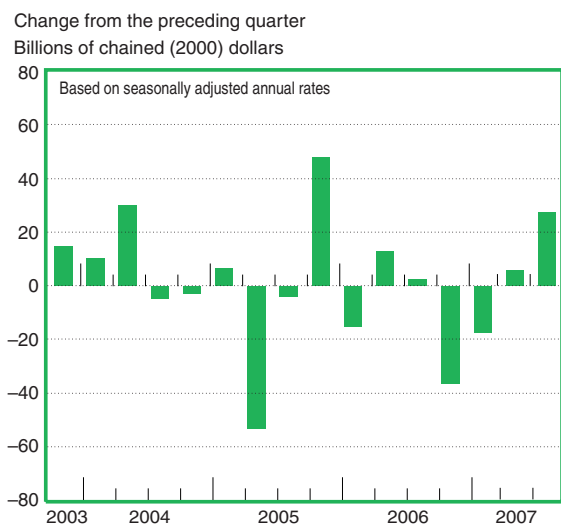
Inventory investment in the mining, utilities, and construction industries decreased more than in the second quarter; the level was negative.

Inventory investment in manufacturing industries accelerated, reflecting an upturn in durable-goods industries that more than offset a downturn in nondurable-goods industries.

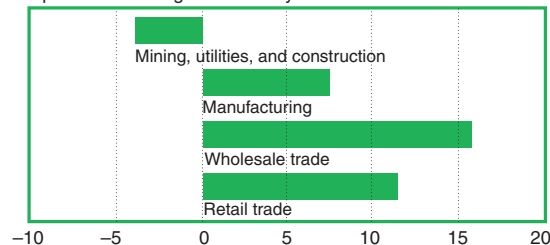
Inventory investment in wholesale trade inventories turned up, reflecting a rebound in durable-goods industries.

Inventory investment in retail trade industries decelerated. Inventory investment by "other" retail stores and by general merchandise stores turned down, but motor vehicles and parts dealers picked up.

**Chart 4. Real Private Inventory Investment**



Composition of change in inventory investment in 2007:III



U.S. Bureau of Economic Analysis

## Exports and Imports

**Table 6. Real Exports and Imports of Goods and Services**

[Seasonally adjusted at annual rates]

	Share of current-dollar exports and imports (percent)	Change from preceding period (percent)					Contribution to percent change in real exports and imports (percentage points)				
		2007	2006	2007			2006	2007			
		III	IV	I	II	III	IV	I	II	III	
Exports of goods and services <sup>1</sup> .....	100.0	14.3	1.1	7.5	18.9	14.3	1.1	7.5	18.9		
Exports of goods <sup>2</sup> .....	70.7	9.6	0.9	6.6	25.8	6.91	0.65	4.66	17.60		
Foods, feeds, and beverages .....	5.4	-12.6	2.8	24.4	41.1	-0.61	0.13	1.09	1.94		
Industrial supplies and materials.....	18.6	15.0	-7.6	6.4	19.6	2.71	-1.44	1.16	3.62		
Capital goods, except automotive.....	27.2	14.5	-2.0	5.1	27.8	4.03	-0.56	1.41	7.26		
Automotive vehicles, engines, and parts .....	7.6	-3.3	5.9	24.5	40.7	-0.24	0.41	1.64	2.80		
Consumer goods, except automotive.....	9.0	12.6	12.0	4.5	21.3	1.11	1.02	0.41	1.89		
Other .....	2.9	-3.0	40.3	-28.2	2.9	-0.09	1.08	-1.04	0.09		
Exports of services <sup>2</sup> .....	29.3	26.0	1.6	9.6	4.0	7.35	0.48	2.87	1.29		
Imports of goods and services <sup>1</sup> .....	100.0	1.6	3.9	-2.7	4.3	1.6	3.9	-2.7	4.3		
Imports of goods <sup>2</sup> .....	84.4	-0.6	4.2	-2.9	4.9	-0.52	3.49	-2.44	4.11		
Foods, feeds, and beverages ..	3.5	-1.0	8.1	-5.9	6.9	-0.03	0.27	-0.21	0.23		
Industrial supplies and materials, except petroleum and products .....	12.7	-19.3	-17.8	22.2	4.7	-2.86	-2.47	2.53	0.60		
Petroleum and products .....	13.8	-6.9	29.6	-22.3	-18.7	-0.95	3.21	-3.27	-2.82		
Capital goods, except automotive.....	19.0	0.6	9.8	1.3	9.4	0.11	1.82	0.24	1.73		
Automotive vehicles, engines, and parts .....	11.3	9.5	-11.0	-2.3	27.1	1.03	-1.33	-0.26	2.70		
Consumer goods, except automotive.....	20.0	13.6	4.7	-3.5	2.0	2.60	0.98	-0.73	0.42		
Other .....	4.1	-10.2	27.9	-16.7	36.3	-0.42	1.01	-0.73	1.27		
Imports of services <sup>2</sup> .....	15.6	14.2	2.3	-1.7	0.9	2.15	0.38	-0.26	0.15		
Addenda:											
Exports of agricultural goods <sup>3</sup> .....	6.1	-12.4	-4.1	35.5	53.4	.....	.....	.....	.....		
Exports of nonagricultural goods .....	64.6	11.5	1.3	4.6	23.6	.....	.....	.....	.....		
Imports of nonpetroleum goods .....	70.6	0.7	0.3	1.2	10.2	.....	.....	.....	.....		

1. The estimates under the contribution columns are also percent changes.

2. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

3. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

NOTE: Percent changes are from NIPA table 4.2.1, contributions are from NIPA table 4.2.2, and shares are calculated from NIPA table 4.2.5.

Real exports picked up sharply in the third quarter, increasing 18.9 percent after increasing 7.5 percent in the second quarter.

Exports of goods accelerated robustly and contributed 17.60 percentage points to the growth in real exports; the pickup was widespread. Exports of nonautomotive capital goods led the acceleration, mainly reflecting an upturn in civilian aircraft, engines, and parts. Exports of industrial supplies and materials, nonautomotive consumer goods, and automotive vehicles, engines, and parts accelerated. "Other" exports of goods turned up, and exports of foods, feeds, and beverages picked up.

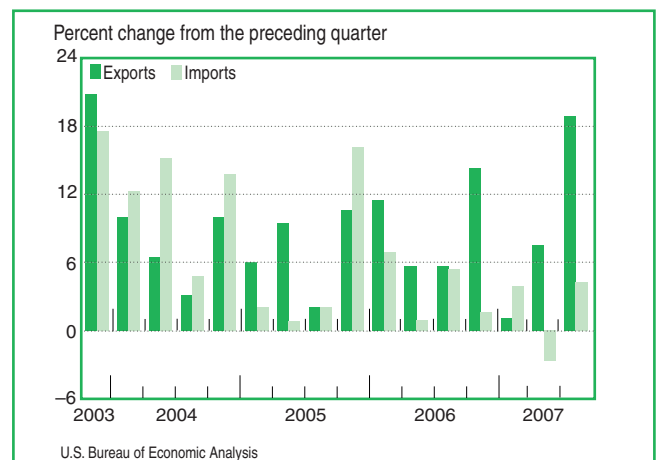
Exports of services slowed. The slowdown primarily reflected a downturn in "other private services"; travel services picked up somewhat.

Real imports turned up, increasing 4.3 percent after decreasing 2.7 percent. The upturn reflected rebounds in imports of both goods and services.

The rebound in goods imports was led by an upturn in imports of automotive vehicles, engines, and parts. Imports of "other" goods also turned up and nonautomotive capital goods accelerated. In contrast, industrial supplies and materials slowed, mainly because of a deceleration in nondurable-goods imports.

Imports of services turned up. "Other" transportation services rebounded, and travel by U.S. residents abroad decreased less in the third quarter than in the second. "Other" private services decelerated.

**Chart 5. Real Exports and Imports of Goods and Services**





## Government Spending

**Table 7. Real Government Consumption Expenditures and Gross Investment (CEGI)**

[Seasonally adjusted at annual rates]

	Share of current-dollar CEGI (percent)	Change from preceding period (percent)					Contribution to percent change in real CEGI (percentage points)				
		2006		2007			2006		2007		
		III	IV	I	II	III	IV	I	II	III	IV
<b>Government consumption expenditures and gross investment<sup>1</sup>.....</b>	<b>100.0</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>3.9</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>3.9</b>		
Consumption expenditures.....	82.5	3.6	-0.4	3.3	3.5	2.95	-0.33	2.73	2.89		
Gross investment.....	17.5	3.0	-0.9	7.9	5.5	0.52	-0.15	1.35	0.96		
<b>Federal.....</b>	<b>36.5</b>	<b>7.3</b>	<b>-6.3</b>	<b>6.0</b>	<b>7.0</b>	<b>2.64</b>	<b>-2.37</b>	<b>2.15</b>	<b>2.52</b>		
<b>National defense.....</b>	<b>24.8</b>	<b>16.9</b>	<b>-10.8</b>	<b>8.5</b>	<b>10.1</b>	<b>3.91</b>	<b>-2.81</b>	<b>2.04</b>	<b>2.41</b>		
Consumption expenditures.....	21.7	15.5	-9.2	8.7	9.5	3.14	-2.09	1.81	2.00		
Gross investment.....	3.1	27.0	-20.6	7.6	14.0	0.77	-0.72	0.23	0.41		
<b>Nondefense.....</b>	<b>11.7</b>	<b>-10.0</b>	<b>3.8</b>	<b>0.9</b>	<b>0.9</b>	<b>-1.27</b>	<b>0.44</b>	<b>0.11</b>	<b>0.11</b>		
Consumption expenditures.....	10.2	-10.7	7.3	-0.9	1.7	-1.19	0.73	-0.09	0.18		
Gross investment.....	1.4	-5.4	-18.0	14.9	-4.7	-0.09	-0.30	0.20	-0.07		
<b>State and local.....</b>	<b>63.6</b>	<b>1.3</b>	<b>3.0</b>	<b>3.0</b>	<b>2.1</b>	<b>0.83</b>	<b>1.88</b>	<b>1.93</b>	<b>1.33</b>		
Consumption expenditures.....	50.6	1.9	2.0	2.0	1.4	0.99	1.02	1.01	0.71		
Gross investment.....	13.0	-1.3	7.1	7.2	4.8	-0.16	0.86	0.92	0.62		

1. The estimates under the contribution columns are also percent changes.

NOTE: Percent changes are from NIPA table 3.9.1, contributions from NIPA table 3.9.2, and shares are calculated from NIPA table 3.9.5.

Real government spending decelerated slightly in the third quarter, increasing 3.9 percent after increasing 4.1 percent in the second quarter. The deceleration reflected a slowdown in state and local government spending that was partly offset by a pickup in Federal Government spending.

The pickup in Federal Government spending reflected an acceleration in national defense spending, which increased 10.1 percent after an increase of 8.5 percent. Nondefense spending grew at the same rate as in the second quarter.

State and local government spending slowed to 2.1 percent in the third quarter after increasing 3.0 percent in the second quarter.

### Government Spending

“Government consumption expenditures and gross investment,” or “government spending,” consists of two main components: (1) Consumption expenditures by Federal and by state and local governments and (2) gross investment by government and government-owned enterprises.

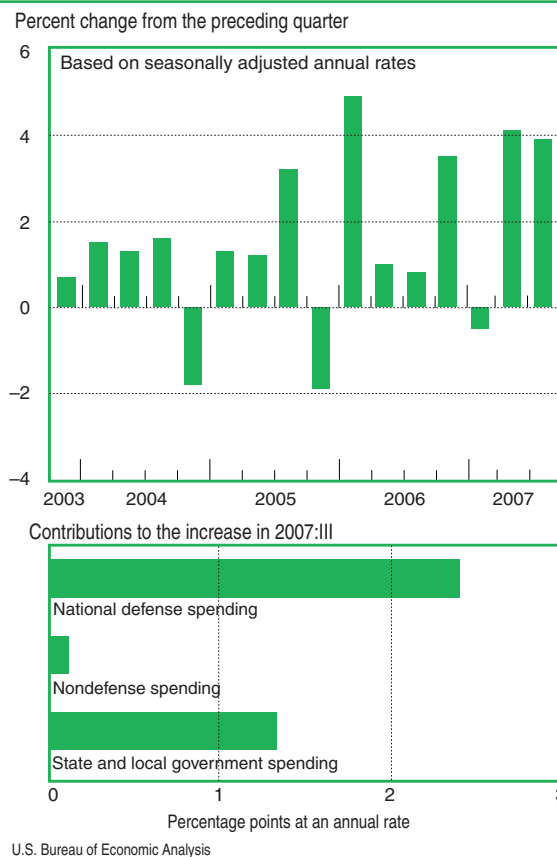
Government consumption expenditures consists of the goods and services that are produced by general government (less any sales to other sectors and investment goods produced by government itself). Governments generally provide services to the general public without charge. The value of government production—that is, government’s gross output—is measured as spending for labor and capital services and for intermediate goods and services.<sup>1</sup>

Gross investment consists of new and used structures (such as highways and dams) and equipment and software purchased or produced by government and government-owned enterprises.

Government consumption and gross investment excludes current transactions of government-owned enterprises, current transfer payments, interest payments, subsidies, and transactions in financial assets and nonproduced assets, such as land.

1. Capital services is also known as consumption of fixed capital (depreciation) and represents a partial measure of the services provided by government-owned fixed capital.

**Chart 6. Real Government Consumption Expenditures and Gross Investment**



## Prices

**Table 8. Prices for Gross Domestic Purchases**

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2006		2007		2006		2007	
	IV	I	II	III	IV	I	II	III
<b>Gross domestic purchases<sup>1</sup></b> .....	<b>0.1</b>	<b>3.8</b>	<b>3.8</b>	<b>1.6</b>	<b>0.1</b>	<b>3.8</b>	<b>3.8</b>	<b>1.6</b>
<b>Personal consumption expenditures</b> .....	<b>-0.9</b>	<b>3.5</b>	<b>4.3</b>	<b>1.7</b>	<b>-0.60</b>	<b>2.32</b>	<b>2.84</b>	<b>1.11</b>
Durable goods .....	-2.7	-1.9	-1.4	-1.8	-0.21	-0.14	-0.11	-0.13
Nondurable goods .....	-7.9	5.0	10.0	1.1	-1.58	0.96	1.89	0.22
Services .....	3.0	3.8	2.6	2.6	1.19	1.49	1.06	1.02
<b>Gross private domestic investment</b> .....	<b>2.2</b>	<b>2.0</b>	<b>-0.4</b>	<b>-0.5</b>	<b>0.33</b>	<b>0.30</b>	<b>-0.05</b>	<b>-0.07</b>
Fixed investment .....	2.0	1.9	-0.3	-0.6	0.30	0.29	-0.04	-0.09
Nonresidential .....	2.0	1.9	0.0	-0.7	0.20	0.19	0.00	-0.07
Structures .....	4.6	4.1	-1.1	0.1	0.14	0.13	-0.04	0.00
Equipment and software .....	0.8	1.0	0.5	-1.1	0.06	0.07	0.03	-0.07
Residential .....	2.1	2.0	-0.8	-0.5	0.11	0.10	-0.04	-0.02
Change in private inventories .....	.....	.....	.....	.....	0.03	0.01	-0.01	0.02
<b>Government consumption expenditures and gross investment</b> .....	<b>2.1</b>	<b>6.4</b>	<b>5.5</b>	<b>3.1</b>	<b>0.38</b>	<b>1.15</b>	<b>1.00</b>	<b>0.58</b>
Federal .....	0.5	5.3	3.8	1.6	0.03	0.35	0.26	0.11
National defense .....	-0.1	5.0	4.1	1.8	-0.01	0.23	0.18	0.08
Nondefense .....	1.7	5.9	3.3	1.1	0.04	0.13	0.07	0.02
State and local .....	3.1	7.0	6.5	4.0	0.35	0.80	0.74	0.47
<b>Addenda:</b>								
Gross domestic purchases:								
Food .....	2.1	5.0	4.8	4.8	0.19	0.47	0.44	0.44
Energy goods and services .....	-34.4	14.9	49.6	-5.2	-2.04	0.65	2.02	-0.27
Excluding food and energy .....	2.3	3.1	1.5	1.7	1.96	2.65	1.32	1.45
Personal consumption expenditures (PCE):								
Food .....	1.9	4.8	4.7	4.7	.....	.....	.....	.....
Energy goods and services .....	-36.6	16.1	51.3	-6.7	.....	.....	.....	.....
Excluding food and energy .....	1.9	2.4	1.4	1.8	.....	.....	.....	.....
"Market-based" PCE .....	-1.6	3.6	4.7	1.4	.....	.....	.....	.....
Excluding food and energy .....	1.6	2.4	1.2	1.6	.....	.....	.....	.....
Gross domestic product .....	1.7	4.2	2.6	0.9	.....	.....	.....	.....

1. The estimates under the contribution columns are also percent changes.

NOTE: All the percent changes except those for PCE for food and energy goods and services and for PCE excluding food and energy are from NIPA table 1.6.7; the changes for PCE are calculated from index numbers in NIPA table 2.3.4. The contributions are from NIPA table 1.6.8.

Prices paid by domestic purchasers increased 1.6 percent in the third quarter after increasing 3.8 percent in the second quarter. Energy prices turned down, and food prices increased at the same rate as in the second quarter. Excluding food and energy, gross domestic purchases prices increased 1.7 percent, following a 1.5-percent increase.

Consumer prices as measured by the PCE price index slowed, mainly reflecting downturns in prices paid for gasoline, fuel oil, and other energy goods.

Prices paid for nonresidential fixed investment turned down, mainly reflecting a downturn in prices paid for transportation equipment and a larger decrease in prices paid for computers and peripheral equipment.

Prices paid for residential investment decreased somewhat less than in the second quarter.

Prices paid by government slowed. The slowdown was widespread across Federal and state and local government goods and services.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, picked up somewhat, increasing 1.8 percent after increasing 1.4 percent.

The GDP price index increased 0.9 percent, 0.7 percentage point less than the increase in the price index for gross domestic purchases, reflecting a larger increase in import prices than in export prices.

### Note on Prices

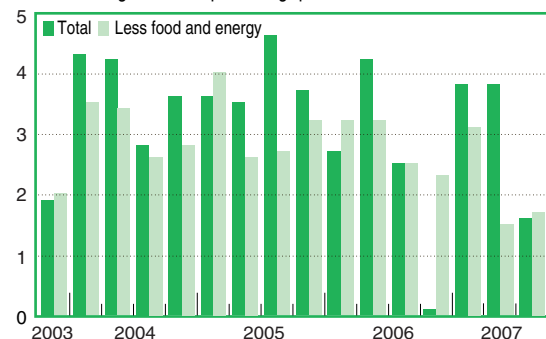
BEA's gross domestic purchases price index is the most comprehensive index of prices paid by U.S. residents for all goods and services purchased in the United States. It is derived from prices of consumer spending, private investment, government spending, and prices paid for imports.

The GDP price index measures the prices paid for all the goods and services produced in the United States, and it includes the prices of goods and services that are exported.

The difference between the gross domestic purchases price index and the GDP price index reflects the differences between the imports prices (included in the gross domestic purchases index) and the exports prices (included in the GDP price index).

**Chart 7. Gross Domestic Purchases Prices**

Percent change from the preceding quarter



NOTE: Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (2000=100).

U.S. Bureau of Economic Analysis



## Revisions

Table 9. Advance and Preliminary Estimates for the Third Quarter of 2007

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Advance	Preliminary	Preliminary minus advance	Advance	Preliminary	Preliminary minus advance
<b>Gross domestic product (GDP) <sup>1</sup></b> .....	<b>3.9</b>	<b>4.9</b>	<b>1.0</b>	<b>3.9</b>	<b>4.9</b>	<b>1.0</b>
<b>Personal consumption expenditures</b> .....	<b>3.0</b>	<b>2.7</b>	<b>-0.3</b>	<b>2.11</b>	<b>1.88</b>	<b>-0.23</b>
Durable goods .....	4.4	4.0	-0.4	0.35	0.31	-0.04
Nondurable goods .....	2.7	1.9	-0.8	0.56	0.39	-0.17
Services .....	2.9	2.8	-0.1	1.20	1.18	-0.02
<b>Gross private domestic investment</b> .....	<b>0.8</b>	<b>5.9</b>	<b>5.1</b>	<b>0.13</b>	<b>0.92</b>	<b>0.79</b>
Fixed investment .....	-1.5	-0.4	1.1	-0.23	-0.06	0.17
Nonresidential .....	7.9	9.4	1.5	0.82	0.97	0.15
Structures .....	12.3	14.3	2.0	0.40	0.46	0.06
Equipment and software .....	5.9	7.2	1.3	0.42	0.51	0.09
Residential .....	-20.1	-19.7	0.4	-1.05	-1.03	0.02
Change in private inventories .....				0.36	0.98	0.62
<b>Net exports of goods and services</b> .....				<b>0.93</b>	<b>1.37</b>	<b>0.44</b>
Exports .....	16.2	18.9	2.7	1.79	2.08	0.29
Goods .....	23.0	25.8	2.8	1.73	1.94	0.21
Services .....	1.6	4.0	2.4	0.06	0.14	0.08
Imports .....	5.2	4.3	-0.9	-0.86	-0.70	0.16
Goods .....	6.2	4.9	-1.3	-0.86	-0.68	0.18
Services .....	0.4	0.9	0.5	-0.01	-0.02	-0.01
<b>Government consumption expenditures and gross investment</b> .....	<b>3.7</b>	<b>3.9</b>	<b>0.2</b>	<b>0.73</b>	<b>0.75</b>	<b>0.02</b>
Federal .....	6.8	7.0	0.2	0.48	0.49	0.01
National defense .....	9.7	10.1	0.4	0.45	0.47	0.02
Nondefense .....	0.9	0.9	0.0	0.02	0.02	0.00
State and local .....	2.0	2.1	0.1	0.25	0.26	0.01
<b>Addenda:</b>						
Final sales of domestic product .....	3.5	3.9	0.4	3.53	3.95	0.42
Gross domestic purchases price index .....	1.6	1.6	0.0			
GDP price index .....	0.8	0.9	0.1			

1. The estimates for GDP under the contribution columns are also percent changes.

The 4.9-percent preliminary estimate of real GDP growth is 1.0 percentage point more than the advance estimate. The average revision (without regard to sign) between the “advance” and “preliminary” estimates is 0.5 percentage point. The upward revision to real GDP growth primarily reflected upward revisions to inventory investment and to exports of goods and a downward revision to imports of goods. In contrast, consumer spending for nondurable goods was revised down.

The downward revision to consumer spending for nondurable goods was widespread; the largest contributor was food.

The largest contributors to the upward revision to inventory investment were wholesale trade inventories and manufacturing inventories.

The upward revision to exports of goods was widespread; the largest contributor was automotive vehicles, engines, and parts.

The largest contributors to the downward revision to imports of goods were industrial supplies and materials and “other” goods.

## Source Data for the Preliminary Estimates

*Personal consumption expenditures:* Retail sales for November and December (revised). Motor vehicle registrations for October and November (revised) and December (new). Retail electricity sales for November (new) and natural gas sales for October (revised) and November (new).

*Nonresidential fixed investment:* Construction put in place for October and November (revised) and December (new). Manufacturers’ shipments of machinery and equipment for October–December (revised).

*Residential investment:* Construction put in place for October and November (revised) and December (new).

*Change in private inventories:* Manufacturers’ inventories for November and December (revised) and trade inventories for November (revised) and December (new).

*Exports and imports of goods and services:* International transactions for October and November (revised) and December (new).

*Government consumption expenditures and gross investment:* State and local construction put in place for October and November (revised) and December (new).

## Personal Income for the Second Quarter

As usual, BEA also released revised estimates of income measures for the previous quarter, reflecting newly available data from the Quarterly Census of Employment and Wages from the Bureau of Labor Statistics.

Among notable revisions, wage and salary disbursements increased \$24.5 billion in the second quarter, a downward revision of \$44.8 billion. Personal current taxes increased \$22.9 billion in the second quarter, a downward revision of \$8.0 billion. Contributions for government social insurance, which are subtracted in calculating personal income, increased \$2.4 billion, a downward revision of \$6.2 billion.

As a result of these revisions

- Personal income increased \$108.1 billion, a downward revision of \$41.9 billion.
- Disposable personal income increased \$85.2 billion, a downward revision of \$33.9 billion.
- Personal saving decreased \$66.5 billion, a downward revision of \$33.9 billion.
- The personal saving rate was 0.3 percent, a downward revision of 0.3 percentage point.

## Corporate Profits

**Table 10. Corporate Profits**

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level	Change from preceding quarter								
	2007	2006	2007			2006	2007			
	III	IV	I	II	III	IV	I	II	III	
<b>Current production measures:</b>										
Corporate profits .....	1,623.1	-61.3	16.5	94.7	-19.3	3.8	1.1	6.1	-1.2	
Domestic industries .....	1,286.6	-89.3	-3.7	78.0	-41.2	-6.7	-0.3	6.2	-3.1	
Financial .....	492.3	19.3	-26.9	52.7	-29.1	4.0	-5.4	11.2	-5.6	
Nonfinancial .....	794.3	-108.5	23.2	25.3	-12.1	-12.5	3.1	3.2	-1.5	
Rest of the world .....	336.5	28.0	20.1	16.7	21.9	11.2	7.2	5.6	6.9	
Receipts from the rest of the world .....	510.5	12.8	10.0	33.9	27.9	3.0	2.3	7.6	5.8	
Less: Payments to the rest of the world .....	174.1	-15.2	-10.1	17.2	6.1	-8.7	-6.3	11.4	3.6	
Less: Taxes on corporate income .....	471.0	-18.0	0.1	37.6	-19.1	-3.8	0.0	8.3	-3.9	
Equals: Profits after tax .....	1,152.1	-43.3	16.4	57.0	-0.1	-3.9	1.5	5.2	0.0	
Net dividends .....	807.7	25.3	23.0	24.8	23.5	3.6	3.1	3.3	3.0	
Undistributed profits from current production .....	344.4	-68.7	-6.6	32.2	-23.6	-16.7	-1.9	9.6	-6.4	
Net cash flow .....	1,266.8	-57.0	0.2	37.4	-22.1	-4.4	0.0	3.0	-1.7	
<b>Industry profits:</b>										
Profits with IVA .....	1,859.9	-48.0	7.4	101.2	-16.9	-2.6	0.4	5.7	-0.9	
Domestic industries .....	1,523.4	-76.0	-12.7	84.4	-38.7	-4.9	-0.9	5.7	-2.5	
Financial .....	517.6	20.7	-28.0	53.4	-28.8	4.1	-5.4	10.8	-5.3	
Nonfinancial .....	1,005.9	-96.6	15.2	31.0	-9.8	-9.1	1.6	3.2	-1.0	
Rest of the world .....	336.5	28.0	20.1	16.7	21.9	11.2	7.2	5.6	6.9	
<b>Addenda:</b>										
Profits before tax (without IVA and CCAdj) .....	1,879.5	-62.2	26.6	115.7	-52.0	-3.4	1.5	6.4	-2.7	
Profits after tax (without IVA and CCAdj) .....	1,408.6	-44.2	26.5	78.1	-32.8	-3.2	2.0	5.7	-2.3	
IVA .....	-19.6	14.2	-19.2	-14.5	35.1	.....	.....	.....	.....	
CCAdj .....	-236.8	-13.3	9.1	-6.5	-2.4	.....	.....	.....	.....	

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

Profits from current production decreased \$19.3 billion, or 1.2 percent at a quarterly rate, in the third quarter, following an increase of \$94.7 billion in the second quarter.

Domestic profits of financial corporations decreased \$29.1 billion, or 5.6 percent, in contrast to a second-quarter increase of \$52.7 billion.

Domestic profits of nonfinancial institutions decreased \$12.1 billion, or 1.5 percent, in the third quarter, in contrast to a second-quarter increase of \$25.3 billion.

Profits from the rest of the world (net corporate profits earned abroad) increased \$21.9 billion, or 6.9 percent, after increasing \$16.7 billion. In the third quarter, receipts increased \$27.9 billion, and payments increased \$6.1 billion.

Taxes on corporate income decreased \$19.1 billion, or 3.9 percent, following an increase of \$37.6 billion.

Undistributed corporate profits decreased \$23.6 billion, or 6.4 percent, after increasing \$32.2 billion.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$22.1 billion, or 1.7 percent, after increasing \$37.4 billion.

### Measuring Corporate Profits

Corporate profits is a widely followed economic indicator used to gauge corporate health, assess investment conditions, and analyze the effect on corporations of economic policies and conditions. In addition, corporate profits is an important component in key measures of income.

BEA's measure of corporate profits aims to capture the income earned by corporations from current production in a manner that is fully consistent with the national income and product accounts (NIPAs). The measure is defined as receipts arising from current production less associated expenses. Receipts exclude income in the form of dividends and capital gains, and expenses exclude bad debts, natural resource depletion, and capital losses.

Because direct estimates of NIPA-consistent corporate profits are unavailable, BEA derives these estimates in three steps.

First, BEA measures profits before taxes to reflect corporate income regardless of any redistributions of income through taxes. This measure is partly based on tax return

information from the Internal Revenue Service; BEA uses tax accounting measures as a source of information on profits for two reasons: They are based on well-specified accounting definitions, and they are comprehensive, covering all incorporated businesses—publicly traded and privately held—in all industries. BEA also uses other sources of information to estimate pretax profits, including information from the Census Bureau.

Second, to remove the effects of price changes on inventories valued at historical cost and of tax accounting for inventory withdrawals, BEA adds an inventory valuation adjustment that values inventories at current cost.

Third, to remove the effects of tax accounting on depreciation, BEA adds a capital consumption adjustment (CCAdj). CCAdj is defined as the difference between consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging) and capital consumption allowances (tax return depreciation).